

Message Text

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INFO OCT-01 EA-06 ISO-00 AID-05 CEA-01 CIAE-00 COME-00

EB-07 FRB-01 INR-05 IO-10 NEA-06 NSAE-00 RSC-01

OPIC-03 SP-02 TRSE-00 CIEP-01 LAB-01 SIL-01 SWF-01

OMB-01 STR-01 SS-15 NSC-05 INT-05 /091 W

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R 201803Z NOV 74

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DEPT PASS TREASURY, CEA, FRB AND COMMERCE

E.O. 11652: N/A

TAGS: ECON, OECD

SUBJECT: CHAIRMAN'S SUMMARY OF ECONOMIC POLICY
COMMITTEE MEETING, NOVEMBER 18-19

1. THE FOLLOWING SUMMARY, BY CHAIRMAN SIR DOUGLAS ALLEN
AT CONCLUSION OF EPC MEETING, IS TRANSMITTED IN ITS
ENTIRETY. SEPTTEL PROVIDES DETAILS OF DISCUSSION.

L. OECD COUNTRIES STILL GIVE FIRST PRIORITY TO THE
REDUCTION OF INFLATION. THEY ARE, OF COURSE, PREPARED
TO TAKE APPROPRIATE EXPANSIONARY ACTION IF THIS IS
NEEDED TO PREVENT A CUMULATIVE DOWNTURN. BUT MANY
GOVERNMENTS FEEL THAT THE GROWTH OF DOMESTIC DEMAND WILL
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HAVE TO REMAIN MODERATE, BY THE STANDARDS OF THE LAST

DECADE, UNTIL IT IS CLEAR THAT THE PRICE RISE IS BEING REDUCED TO MORE ACCEPTABLE RATES. INDEED, THERE IS A BELIEF THAT UNTIL BETTER CONFIDENCE IN THE VALUE OF MONEY HAS BEEN RESTORED, THE MARKET SYSTEM WILL BE UNABLE TO FUNCTION EFFICIENTLY.

2. RECENT MONTHS HAVE SEEN AN UNEXPECTEDLY PRONOUNCED SLOWING-DOWN OF ACTIVITY IN A NUMBER OF IMPORTANT COUNTRIES, BUT NOT A CUMULATIVE DOWNTURN. PRICES HAVE BEEN RISING EXTREMELY FAST. SOME RELIEF TO THE PRICE SITUATION IS NOW BEGINNING TO BE FELT FROM FALLING NON-OIL COMMODITY PRICES. THE TREND OF FOOD PRICES IS LESS ENCOURAGING THAN EXPECTED A FEW MONTHS AGO, ALTHOUGH THERE ARE REASONS TO EXPECT A CALMER DEVELOPMENT TO SET IN DURING 1975. WAGE PRESSURES, RESULTING FROM RECENT COST OF LIVING INCREASES, ARE NOW AN IMPORTANT FACTOR BEHIND PRICE INCREASES IN ALL COUNTRIES.

3. SOME IMPORTANT FACTORS IN THE PRESENT SITUATION ARE COMMON TO MANY MEMBER COUNTRIES.

(A) IN MANY OF THEM, FINANCIAL MARKETS ARE UNDER PRESSURE; LONG-TERM BORROWING HAS BECOME VERY DIFFICULT, AND MAY REMAIN SO UNTIL INFLATIONARY EXPECTATIONS CAN BE SUBDUED.

(B) IN MOST COUNTRIES, IMPORTANT SECTORAL DIFFERENCES ARE NOW ARISING, WITH CAPACITY STILL STRAINED IN SOME INDUSTRIES (STEEL, COAL, CHEMICALS) BUT WITH LARGE SLACK DEVELOPING IN OTHERS (AUTOMOBILES, TEXTILES, HOUSEBUILDING AND TOURISM). UNDER THESE CIRCUMSTANCES, DEMAND MANAGEMENT NEEDS TO BE SOMEWHAT SELECTIVE. THE UNUSED CAPACITY IS PROBABLY, IN PART, THE RESULT OF RECENT LARGE CHANGES IN RELATIVE PRICES, AND IT IS NOT CLEAR, GIVEN THE CO-EXISTENCE OF BOTTLENECKS AND OF SLACK WHICH MAY PARTLY BE STRUCTURAL, HOW FAR THE RATE AND PATTERN OF FUTURE EXPANSION BOTH IN THE SHORT AND MEDIUM-TERM WILL NEED TO BE MODIFIED. WORKING PARTY NO. 2 IS BEING ASKED TO REPORT ON THIS QUESTION.

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4. QUITE A FEW COUNTRIES FEEL THAT THERE IS SCOPE FOR GOVERNMENTS TO DEVELOP UNDERSTANDINGS WITH ORGANIZED LABOR AND MANAGEMENT WHEREBY HIGH EMPLOYMENT POLICIES CAN BE RESUMED IN EXCHANGE FOR SATISFACTORY RESTRAINT IN RESPECT OF WAGE DEMANDS AND PRICING POLICIES. THOUGH PAST EXPERIENCE IN RESPECT OF CERTAIN TYPES OF INCOMES POLICIES HAS BEEN DISAPPOINTING IN SOME COUNTRIES, WORKING PARTY NO. 4 IS TO RECONSIDER WHETHER A BROAD

MULTI-POLICY APPROACH ENCOMPASSING FISCAL POLICY COULD
BE USED AS AN ADJUNCT TO DEMAND MANAGEMENT IN THE
ATTACK ON INFLATION.

5. THE COMMITTEE ENDORSES THE RECOMMENDATIONS CONTAINED
IN THE RECENT REPORT BY THE MANPOWER AND SOCIAL AFFAIRS
COMMITTEE CONCERNING THE USE OF SELECTIVE MANPOWER
MEASURES SUCH AS TEMPORARY INCREASES IN TRAINING AND
JOB CREATION PROGRAMS IN TIMES OF UNEMPLOYMENT.

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6. THE COMMITTEE DISCUSSED THE PROSPECTS FOR WORLD
TRADE AND PAYMENTS AND NOTED THAT SOME PROGRESS TOWARDS

BETTER PAYMENTS EQUILIBRIUM WITHIN THE OECD AREA IS EXPECTED NEXT YEAR. SUCH PROGRESS IS ESSENTIAL IF THE PROBLEM OF FINANCING TRADE DEFICITS RESULTING FROM THE RISE IN OIL PRICES IS TO CONTINUE TO BE HANDLED IN A WAY WHICH DOES NOT FURTHER AGGRAVATE THE PROBLEMS FACING MEMBER COUNTRIES. THE COMMITTEE HEARD WITH INTEREST THAT THE UNITED STATES HAD CERTAIN SUGGESTIONS CONCERNING THE SETTING UP OF A NEW FINANCIAL MECHANISM, ASSOCIATED WITH THE OECD, TO BACK UP AND SUPPLEMENT EXISTING CHANNELS OF FINANCING.

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7. WIDESPREAD SUPPORT WAS GIVEN TO THE VIEW THAT THE PRESENT ECONOMIC SITUATION DOES NOT CALL FOR ANY REDUCTION IN THE VOLUME OF AID: BOTH FROM THE GENERAL ECONOMIC AND THE SOCIAL AND HUMANITARIAN VIEWPOINT AN INCREASE IS HIGHLY DESIRABLE.

8. IT IS AGREED THAT MORE FAR-REACHING MEASURES THAN MOST COUNTRIES HAVE TAKEN TO DATE TO ECONOMIZE ON THE USE OF ENERGY ARE NECESSARY. ACTION IN THIS FIELD MAY NEED TO GO BEYOND USE OF THE PRICE MECHANISM AND INCLUDE EFFECTIVE ADMINISTRATIVE STEPS TO REDUCE CONSUMPTION.

9. THE PRECISE STRATEGIES ADOPTED TO BRING INFLATION UNDER CONTROL, TO ENABLE UNEMPLOYMENT TO BE REDUCED AND TO RESTORE SATISFACTORY INTERNATIONAL PAYMENTS POSITIONS WILL VARY AS BETWEEN COUNTRIES. GOVERNMENTS BELIEVE THAT THE VARIOUS STRATEGIES THEY ARE AT PRESENT FOLLOWING ARE APPROPRIATE TO THEIR CIRCUMSTANCES, BUT THEY ARE READY TO APPLY THEM FLEXIBLY, AND TO ADAPT THEM AS MAY BECOME NECESSARY AS THE ECONOMIC SITUATION EVOLVES. ALL COUNTRIES AGREE ON THE NEED TO AVOID POLICIES WHICH SERVE MAINLY TO EXPORT THEIR DIFFICULTIES TO THEIR PARTNERS' AND ARE RESOLVED TO COOPERATE IN OECD TO THIS END.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, COMMITTEE MEETINGS, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 20 NOV 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974OECDP27750
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740336-0152
From: OECD PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741128/aaaaawxv.tel
Line Count: 211
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 09 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09 APR 2002 by izenbei0>; APPROVED <13-Aug-2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CHAIRMAN'S SUMMARY OF ECONOMIC POLICY COMMITTEE MEETING, NOVEMBER 18-19
TAGS: ECON, OECD
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005